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M E M O R A N D U M

TO: Honorable Board of Selectmen  
Honorable Finance Committee

FROM: Jill R. Goldsmith, Town Manager

DATE: January 16, 2015 For the BOS meeting of January 20, 2015

SUBJECT: Town Manager's Fiscal Year 2016 Budget Summary  
(July 1, 2015 – June 30, 2016)

Attached, please find the summary of FY2016 Departmental Requests, Town Manager Recommendations for Funding, and the Preliminary Financial Forecast which includes revenues and economic forecasts. Also included is a Budget Summary reflecting budget actuals since FY2013. The information presented below is a summary and snap shot of the information contained in the FY2016 Budget Book. For FY2016 budget planning, each Department/Division was asked to submit a detailed budget narrative (function and goals) and staffing history. In reviewing the detailed submissions in the Budget Book, you will find a column for supplemental requests if funding were to be made available for strategic appropriation or presented as reductions in some line-items - as an illustration of operation and funding challenges and our effort to address such. For supplemental requests, the Finance Director has worked with Departments to identify other potential funding sources; line items for centralized funding or expenditure trends for the past five years so that the Town Manager Recommendation may not include funding for such. The same would apply to Capital Planning requests for which the Finance Director reviewed other potential funding sources, balances remaining from previously approved articles and expanded opportunities for shared resources.

As we work to make more documents available on the Town's website, including the Department Budgets, I would like to remind the public of the *Budget Central* link on the Town's website, <http://www.chatham-ma.gov/Public Documents/ChathamMA Budget/index>. With progressive review through the FY2016 budget process; materials will be placed in *Budget Central* and updated as information becomes available. We also recommend that the public visit the Town Manager's Department page on the website to review Monthly Reports provided to the BOS since 2012 which provide additional and up-to-date information and insight on Town operations by Department and

Division – a precursor to benchmarking operations and performance management in an effort for data to be used in making managerial and policy decisions.

[http://www.town.chatham.ma.us/Public\\_Documents/ChathamMA\\_Manager/index](http://www.town.chatham.ma.us/Public_Documents/ChathamMA_Manager/index)

#### Reflections on FY2015

In addition to our multi-year financial forecasts, it is important to recognize substantial achievements or events that occurred following Town Meeting's acceptance of our budget philosophy and strategy for the fiscal year of FY2014 continuing through FY2015.

- ✓ The Town's bond rating of AAA was re-affirmed by Standard and Poor's in September 2013. Such rating means *extremely strong capacity to meet financial commitments; Highest Rating*. Attributing to its affirmation, the rating agency noted the Town's commitment to sound fiscal policies, strong financial management, and trust in the officials and professional staff. This accomplishment is achieved at the Town level, and we appreciate the continued support of the community. The next review is scheduled for June 2015.
- ✓ Senior Tax Work-off Program – Began in January 2013 following Town Meeting approval. It provides senior taxpayers with property tax relief - an opportunity to receive a tax abatement of up to \$500.00 annually by sharing intellectual and lifetime experiences working with Town staff. The program is flourishing and many projects were undertaken utilizing our Chatham talent. Similar to last year, a total of \$10,000.00 has been earmarked for this program.
- ✓ SRAC Annual Town Meeting - The Summer Residents Advisory Committee (SRAC) held its annual Town Meeting on August 6, 2014. The financial presentations and scorecard results demonstrated cohesion and shared vision for financial matters by our Summer Residents which is a significant collaboration. The FY2016 Budget adheres to the SRAC Recommendations.
- ✓ Special Town Meeting – September 2014 – provided funding for comments and continued advocacy of the Town's position related to the US Fish and Wildlife Service (USFWS) Draft Comprehensive Conservation Plan and Environmental Impact Statement For Monomoy National Wildlife Refuge. Additional funding was also provided at that time for subsurface contamination mitigation efforts at Depot Road and funding of the Fire Union contract.
- ✓ Budget Summits – The first series of Budget Summits were held in the summer of 2012. The FY2016 Budget Summit was held on October 14, 2014. Multi-year financial forecasts and assumptions were reviewed and updated for the 2016 fiscal year and beyond, as well as an examination of financial indicators for revenues and cost controls. Participants included the Board of Selectmen, Finance Committee, Monomoy Regional School District (MRSD) Committee and Superintendent, and Department Heads. As we continue to hold the Budget Summits, we seek consensus on the budget definitions/directive from all stakeholders. The discussion for the recent Summit focused on 'sustainability'; and what that means in terms of the taxpayer, budget and Town services. The presentations from the Budget Summits can be found on *Budget Central*.

### Board of Selectmen (BOS) Goals

The most important aspect of the budget process is the generation of operational and financial plans, program review and the establishment of goals and objectives that will serve the citizens of the community in this and future years. The goals of the Board of Selectmen, with implementation objectives for the Town Manager, is a prevailing component to the budget process. Since 2012, the BOS has embarked on an organic and collaborative approach to communicate its mission, directives, and resultant goals. We initiated the same process this Fall, with a consistent theme of fiscal conservancy and long-term strategic planning efforts, and final approval will be published soon.

The budget directive communicated to the Departments, Boards and Commissions was for a level service budget; level-funded expenditures as much as possible within the current service levels, and within the allowable limits of Proposition 2½. Revenue projections were accordingly conservative, yet realistic considering prior year receipts.

### **FY 2016 Budget Executive Summary**

In consideration of the above planning efforts, the presented Budget also relies on projections in key categories due to the timing of this transmittal:

ITEM	STATUS
Monomoy Regional School Budget Submittal:	Based on overview of Spending Plan of 1/13/15
Cape Cod Regional Technical School Budget :	Preliminary Budget Release Date of 1/28/15
Cape Cod Municipal Health Group (CCMHG):	Plan Design/Costs Release Date of 1/28/15
Governor's House 2 Budget:	Will not be released until early March.
Debt Service:	Based on Debt Schedules; Short Term debt projected to cover Principal & Interest for Bond Issuance June 2015.

The Omnibus Budget as recommended provides for a balanced budget of:

Revenues:	\$45,047,079
Expenditures	<u>\$45,047,081</u>
	\$ -2- (rounding)

The difference between the Omnibus Budget and the Operating Budget is \$17,552,283 of which \$9,107,792 is for education as voted by a separate Annual Town Meeting article. The remaining \$8,444,491 is made up of other funding sources and expenses such as the Water Fund, CPA, Enterprise Fund, Overlay Account, Cherry Sheet Assessments/Offsets and a portion of the Capital Budget.

The Town's Operating Budget, without the education assessments, totaled \$27,114,014 in FY2015. It is presented at \$27,494,797 for FY2016, an increase of \$380,783 or 1.40% (below the \$29M target recommended by the Summer Residents Advisory Committee). The greatest increases in the budget are seen in the Employee Benefits budget; with a projected 12% increase in Health Insurance costs, Public Works (\$118,616) and in Public Safety (\$126,140), however these are offset by savings in other

areas of the budget. The details of the budget increase is described in this transmittal with education/school assessments noted separately. The figures as presented on the attached Fiscal Overview/Summaries [Attachment #1] provide a complete financial picture of revenue forecasts and expenses, including funding set aside for warrant articles.

The enclosed operating budget is not reflective of the use of any reserves (Stabilization or 'rainy day' fund). Free Cash is designated to one-time capital program expenses. The Budget as presented provides for a balanced budget well within the allowable growth of MA Proposition 2½; and provides for excess tax levy capacity.

#### Tax Impact

The tax rate increased by a modest amount from FY2013 to FY2014 – \$5.03 to \$5.08 per thousand during a time of a Town-wide property revaluation review. As such, due to an increase in the property valuation of the Town, the tax rate was reduced from FY2014 to FY2015 - \$5.08 to \$4.99 per thousand (it was originally projected to be \$5.11). While we work to limit tax rate growth, we anticipate a return to pre-FY2014 amounts for reasons we will describe herein as well as the first year of the Monomoy High School debt costs. We will report the impact when the final recommended Budget is presented to Town Meeting.

#### Economic Conditions Summary

Residential construction continued to be very strong in 2014, with 50 permits issued for the construction of new dwellings and 539 permits issued for renovations and additions to existing dwellings. At \$77,792,197, the value of this residential construction activity exceeds the prior peak in 2006 of \$66,648,550. Combined residential and commercial construction activity has increased each year since 2009 to a 2014 total of \$81,116,092 exceeding the prior peak of \$77,320,500 in 2006.

On July 16, 2104, the Federal Emergency Management Administration adopted amendments to the Flood Insurance Rate Maps, impacting more than 1,300 properties in Chatham. Construction activity spiked in advance of these changes and the community continues to evaluate how to balance the desirability of living near the water with the risks of flooding and sea level rise. This midyear enactment of federal regulations created a surge of permitting just prior to this effective date. However, it does not appear to have had a long term impact on the level of construction activity occurring in the community.

Two significant residential developments are preparing to break ground in 2015. These are the conversion of the Bradford Inn on Cross Street to eight (8) single family homes and the construction of four affordable single family homes by Habitat for Humanity of Cape Cod in West Chatham. The first illustrates a market response to the desirability of Chatham as a place to visit, own a second home and retire; while the second reminds us of the importance of increasing housing opportunities available to those who work in the community or find it difficult to continue to afford to live in the community. The Massachusetts Housing Partnership has determined that an income of \$87,280 was required to purchase a home in Chatham, based on a median sale price of \$465,000 in 2013; with the median income being \$66,853; \$20,427 less than required.

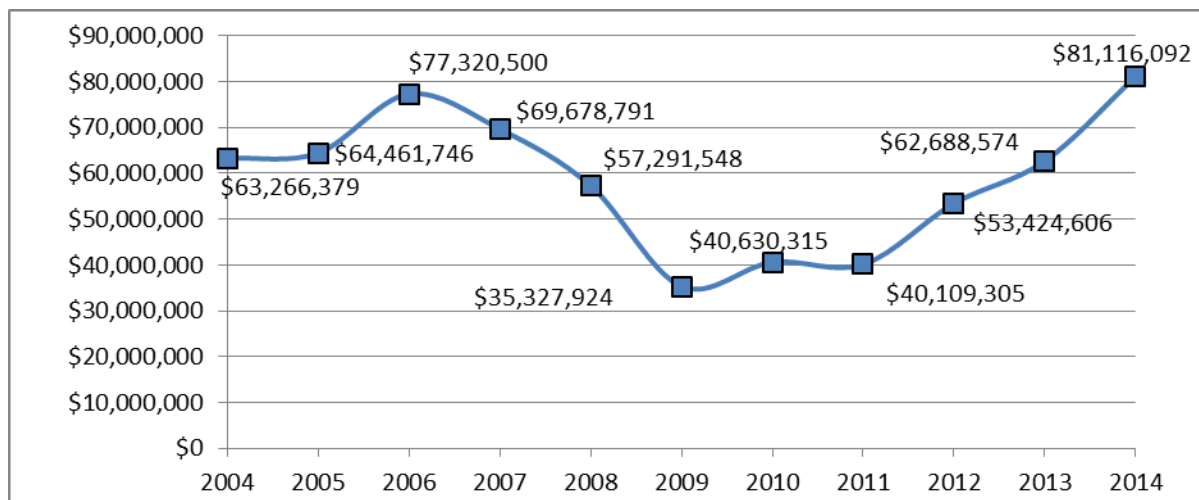
In 2014 there was a dramatic increase in the number of demolition permits issued. Over the prior ten years an average of ten (10) demolition permits were issued per year; while in 2014, 45 demolition

permits were issued. This increase is attributable to a number of factors, one of which is the age of the housing stock. Based on assessor's records, the average age of single family dwellings in Chatham is 50 years. Chatham has been fortunate to retain a significant amount of its historic integrity. The Historic Inventory Plan that was prepared in 2014 under the guidance of the Chatham Historic Commission is an important tool to highlight the historic significance of specific structures and properties so that our present does not destroy our past.

While commercial construction activity slowed in 2014, funding was secured and construction began (or will in early 2015) on several Town projects including:

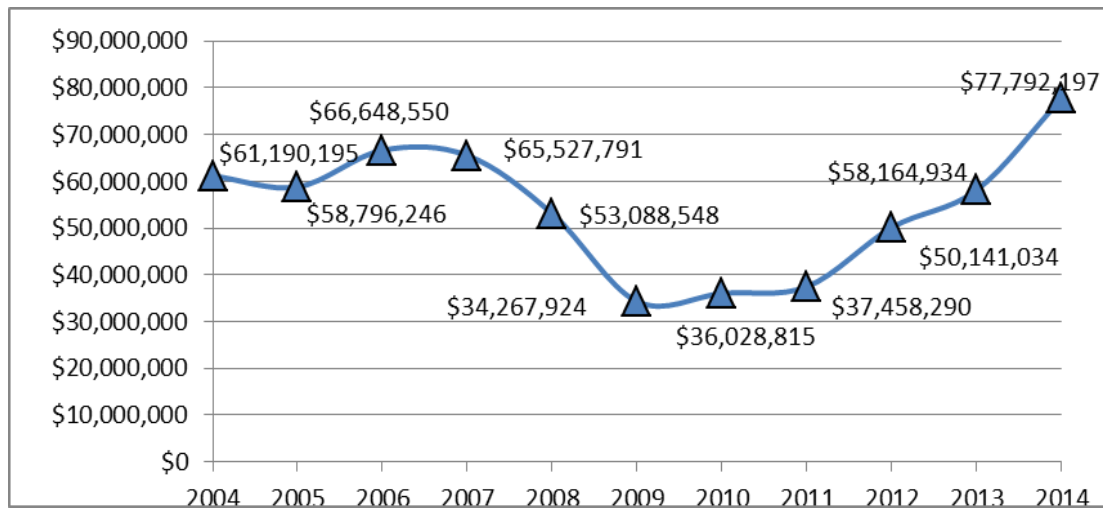
- the installation of a Photovoltaic Array on the closed landfill (2014);
- a new Fire Station on Depot Road; and
- a new water treatment facility on Morton Road.

**Figure 1: 2004-2014 Building Activity**



As has been the historical trend, in 2014 the majority (96% based on construction value) of the construction in town was residential building activity. Most notably, the average construction value of a new dwelling (as reported on the building permit) has increased from less than \$375,000 in 2004, to \$677,732 in 2013 and \$930,068 per dwelling in 2014, with the average residential renovation or addition project being valued at just over \$500,000. While some of this change is likely the result of inflation and increases in the cost of construction materials over time, this increase is also indicative of the changes that have occurred over the past decade in the type of homes being constructed in town as well as market demands. As has been the trend in prior years, the number of renovations and additions (539) far out paces the number of new dwellings (50) permitted.

**Figure 2: 2004-2014 Residential Construction Values**



## REVENUE

As part of our annual fiscal planning, the Town determines how much revenue is available within the limits of Proposition 2½ in order to balance its operating costs. Per State law, the amount the Town is able to raise through property taxation is allowed to grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. In FY2016, the amount the Town may raise through the property tax increases as follows:

Levy Limit	
2½% Allowable	\$642,975
New Growth	<u>\$200,000</u>
Total	\$842,975

As you well know, the Revenue Forecast is simply a “snap shot” estimate as to where the Town stands at this moment (1/20/15). There are a number of evolving factors. The “Cherry Sheet” for local aid (School and Town) funding and assessments that works its way through the legislative process, begins with the Governor’s House 2 Budget anticipated to be filed in March versus late January with final adoption by the Legislature in late spring. For the FY2016 budget, there is a slight reduction (3%) in the projections for local aid, and a projected increase (2.5%) in State assessments (charges) is factored into the projection. As the local budget process advances and the Legislature works through its iterations, these numbers will be fine-tuned the closer we get to the Annual Town Meeting.

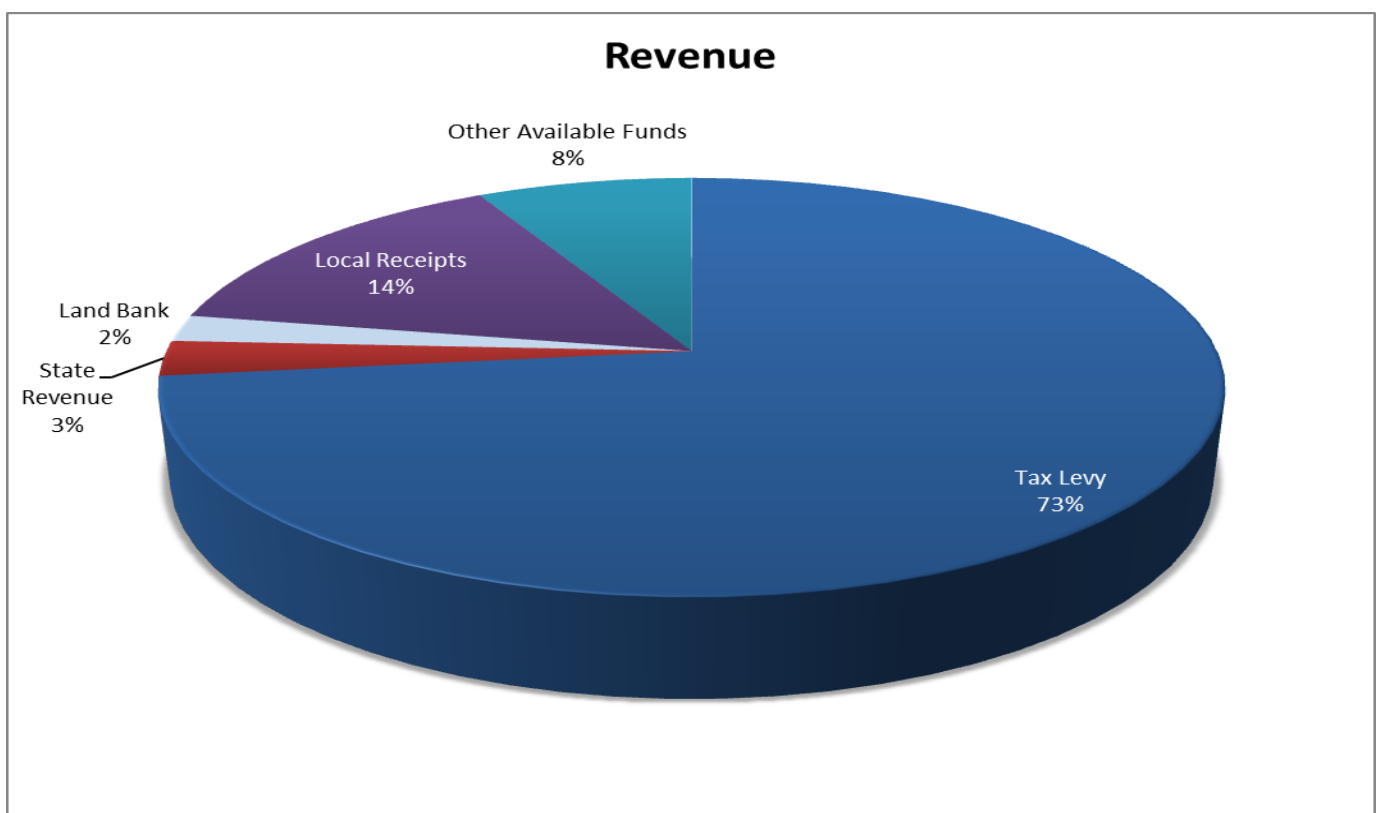
The preliminary FY2016 forecast reflects the following:

- New Growth is projected at \$200,000; this is slightly lower than the actual in FY2015 but is a conservative estimate.
- Debt Structure - FY2016 reflects a drop in the amount for General Fund principal and interest (decrease of \$257,838) The Fire Station was approved by Special Town Meeting/Ballot

Question in October 2013 and an amount is budgeted as short-term debt (\$500,000). The Town will look to permanently bond some of the Fire, Water and Wastewater projects before the end of the fiscal year. We have developed a multi-year debt schedule for financial planning purposes and well as adhered to investment and reserve policies. Such is included in *Budget Central*.

- Local receipts are estimated higher than the FY2015, as review of the Local Receipts over the past three years supports an increase. We continue to monitor the receipts for the Room Occupancy Local Option Tax to see if conversions of rooms will have an impact. The amount raised through Local Receipts offsets the amount raised through the tax levy.
- Cherry Sheet (State Aid) Assessments show a projected increase of 2.5%; and a slight decrease in funding as we await the release of Governor's budget in early March.

**Figure 3: Revenues**



At the FY2016 Budget Summit this Fall, there was discussion of two areas of potential additional revenue available to the Town by a legislative local option - an expansion of the Hotel/Motel Tax (up to 2% additional room tax) and/or expansion of the tax to include residential rental property (requires Special Legislation -Home Rule Petition to the Legislature). The use of any additional revenue generated from the above may be dedicated to a special designated or capital stabilization fund versus the General Fund. There are questions on the cost of implementing a residential rental tax; staff time and enforcement, as well as whether to earmark this revenue for a specific expenditure (i.e. capital stabilization fund). The Finance Committee has formed subcommittees to review these options in 2015. Until a comprehensive cost-benefit analysis is concluded along with demonstrated operational budget cost containment measures, these options are not currently proposed/included for FY2016.

## EXPENDITURES

Similar to prior budgets, the FY2016 Proposed Budget relies on projections regarding available revenue, thereby accepting the limits of the Town's financial resources. The budget is based upon an established ceiling of revenue derived from local property taxes in accordance with Proposition 2½. Added to these revenues are State Aid, Departmental Receipts such as fees, permits, interest earned and Available Funds such as Free Cash and Special Revenues in order to present a balanced budget.

You will see some refinements to the presentation of the detailed Department budgets to provide improved budget management/descriptions and incorporation of some small budget line items in the Department which manages it – Natural Resources Department is now the former Health & Environment (510) budget and includes the Harbormaster Division. Other budgets, such as the Library, have been separated from the Human Services budget as a stand-alone to provide better financial tracking. While we worked to retain the descriptions to provide for legacy budget review, some items with percentage changes reflect the new location of the budget from its former versus an increase/decrease in the budget request. These are specifically highlighted in the budget detail.

At this point in time, based upon our latest projections, the proposed budgets for the key departments are estimated to increase/decrease as follows:

**Table 4: General Operating Budget**

SUMMARY	FY14 Actual	FY15Voted	FY16 Dept. Request	Proposed FY16	% to FY15
<b><u>Operating Budgets - Expenses</u></b>					
General Government	\$1,885,409	\$ 1,926,680	\$ 2,054,177	\$ 2,049,535	3.25%
Public Safety	5,312,316	5,293,135	5,519,112	5,414,402	2.24%
Community Development	596,109	744,832	755,676	755,676	1.43%
Natural Resources	1,223,428	1,302,415	1,315,918	1,310,631	0.63%
Public Works & Facilities	4,518,773	4,532,506	4,591,518	4,576,678	0.97%
Community & Social Services	938,373	999,260	1,076,677	1,054,931	5.28%
Education	8,000,516	8,107,094	9,107,792	9,107,792	12.3%
Employee Benefits	4,094,923	4,142,970	4,427,664	4,423,164	6.33%
Undistributed Insurance. & FinCom Reserve Fund	382,886	537,085	609,375	609,375	11.8%
Debt Service	<u>7,438,281</u>	<u>7,658,244</u>	<u>7,550,406</u>	<u>7,300,406</u>	-4.9%
<b>Operating Budget Total</b>	<u>\$ 34,391,013</u>	<u>\$ 35,244,221</u>	<u>\$ 37,008,315</u>	<u>\$ 36,602,589</u>	<b>3.85%</b>
<b>Minus Education Assessments</b>	<u>\$26,390,497</u>	<u>\$27,137,127</u>	<u>\$27,900,523</u>	<u>\$27,494,797</u>	<b>1.32%</b>

The chart above shows the Operating Budget increasing by 1.32% without the Educational Assessments.



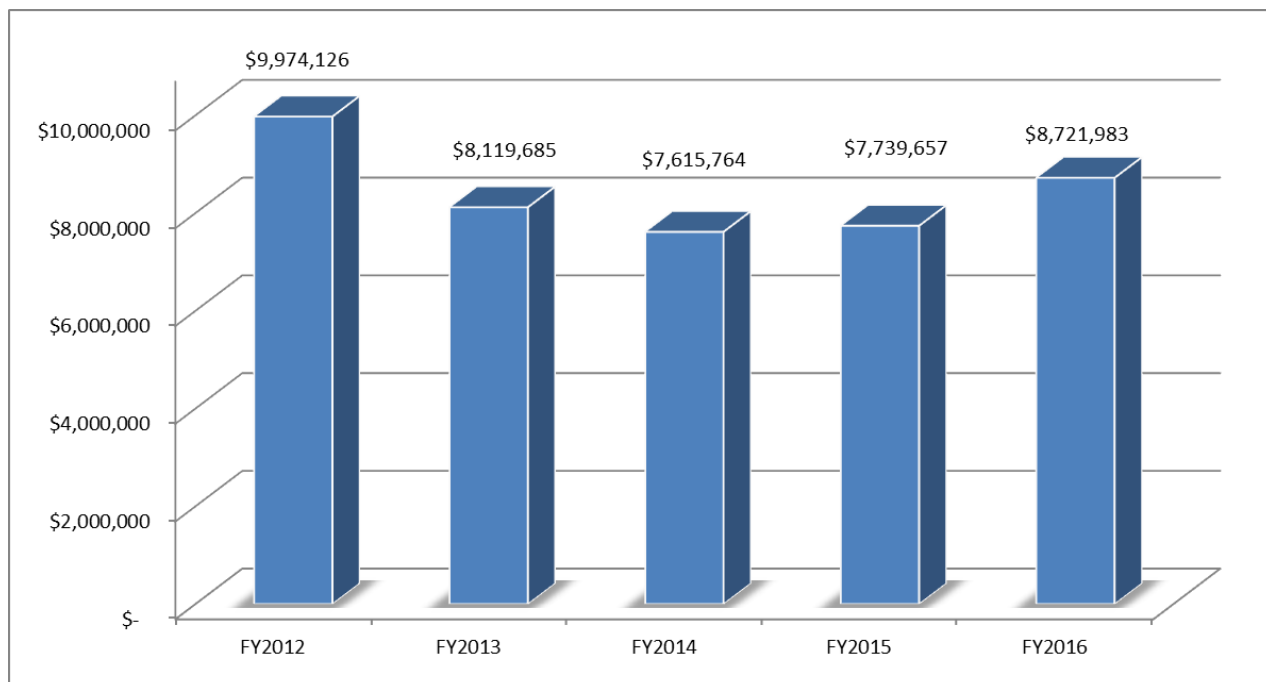
### Education Budgets

Monomoy Regional School Budget - The Monomoy Regional School Administration presented its draft FY2016 budget request (Spending Plan) to the Regional School Committee on January 14, 2015. The draft budget shows an overall increase in the operating budget, as well as the first year of debt service for the new high school building, technology upgrades and OPEB funding. The proposed budget shows the assessment to Chatham projected to be \$8,721,983. Chatham's operation assessment (allocation split), based on the Regional Agreement, has decreased from 27% to 26.35% of the total Regional School budget in FY2016.

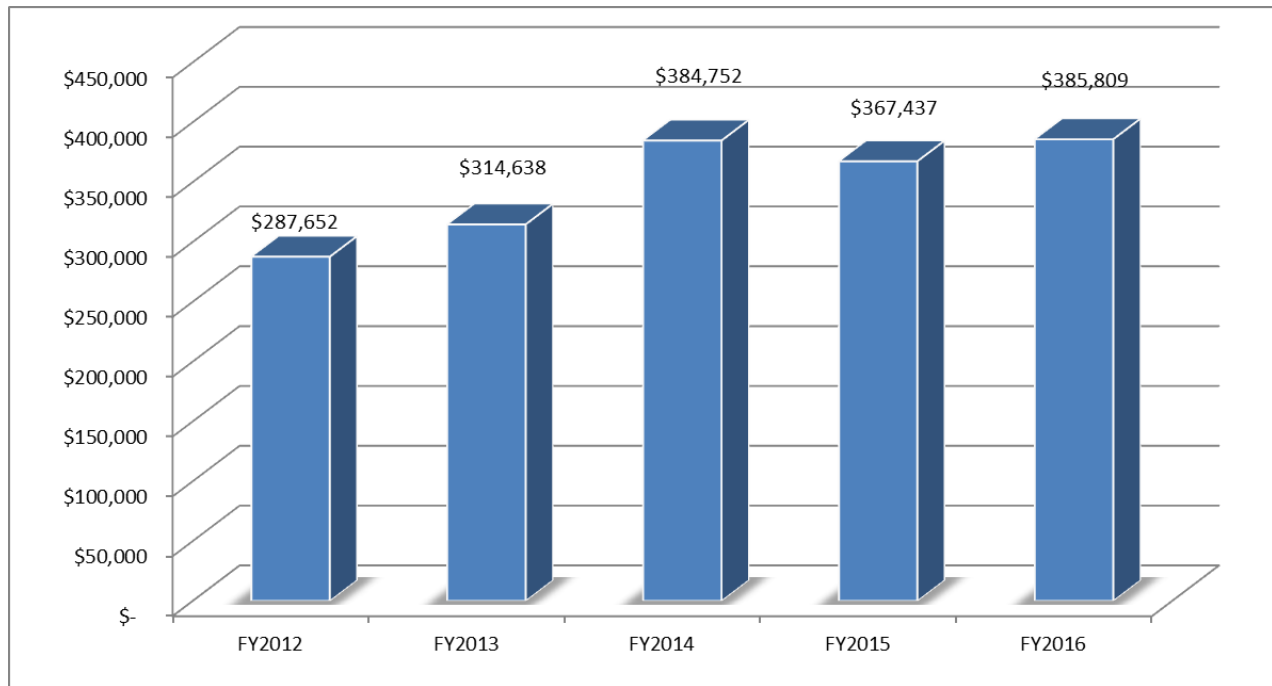
Cape Cod Regional Technical High School – we will receive the budget details on or about Jan. 28, 2015 and schedule a presentation as was done for FY2015.

Public Schools	FY2012	FY2013	FY2014	FY2015	FY2016 1/15/15	% Increase
<b>300 Chatham Public/Monomoy Regional</b>						
Direct Costs-Town	\$ 9,974,126	\$ 8,119,685	\$ 7,615,764	\$ 7,739,657	\$ 8,061,136	12.7%
Debt Service (P & I)		-			\$ 660,847	
<b>310 Cape Cod Regional Tech High</b>						
Expense	\$ 287,652	\$ 314,638	\$ 384,752	\$ 367,437	\$ 385,809	5.0%
<b>Total Public Schools</b>	<b>\$10,261,778</b>	<b>\$ 8,434,323</b>	<b>\$ 8,000,516</b>	<b>\$ 8,107,094</b>	<b>\$ 9,107,792</b>	<b>12.34%</b>

**Figure 5: Monomoy Regional School District**



**Figure 6: Cape Cod Regional Tech School Budget**



As noted above, the Regional School Committees will continue to refine its budget during the coming months based on State Aid and Minimum Contribution for Education amounts. Hearings will be scheduled in each Town in the months of February and March.

At this point, the net effect of changes to the total MRSD Assessment and debt service is an overall increase of \$982,326 or 12.7%. Again, this may change based on the local minimum contribution which will be released in early March; as well as any refinements in the budget before the final presentation.

Cape Cod Regional Technical High School: the budget presented reflects 17 students – same number as the previous year plus a projected 5% increase to the operating budget.

In FY2016, the MRSD Operating Assessment increased by \$321,479; and the debt assessment increased to \$660,847. Again we await the FY2016 Chapter 70 School Aid formula which may affect Chatham's assessment, as the 'split' is based on the number in excess of the minimum contribution. It must be noted that Chatham's percentage decreased slightly to 26.35% based on the three year rolling average. The net effect is a projected 12.3% increase to the Education Budget as voted as a separate Town Meeting Article.

Operating expenditures, excluding the Education Assessments, amount to \$27,494,797; (an increase of \$357,670 more than the budgeted amount of \$27,137,127 for FY2015, due to reasons listed in the next paragraphs). The Operating Budget may realize further reductions as we await the final premium rates for employee health insurance expenses (expected by 1/28/15) and insurance quotes.

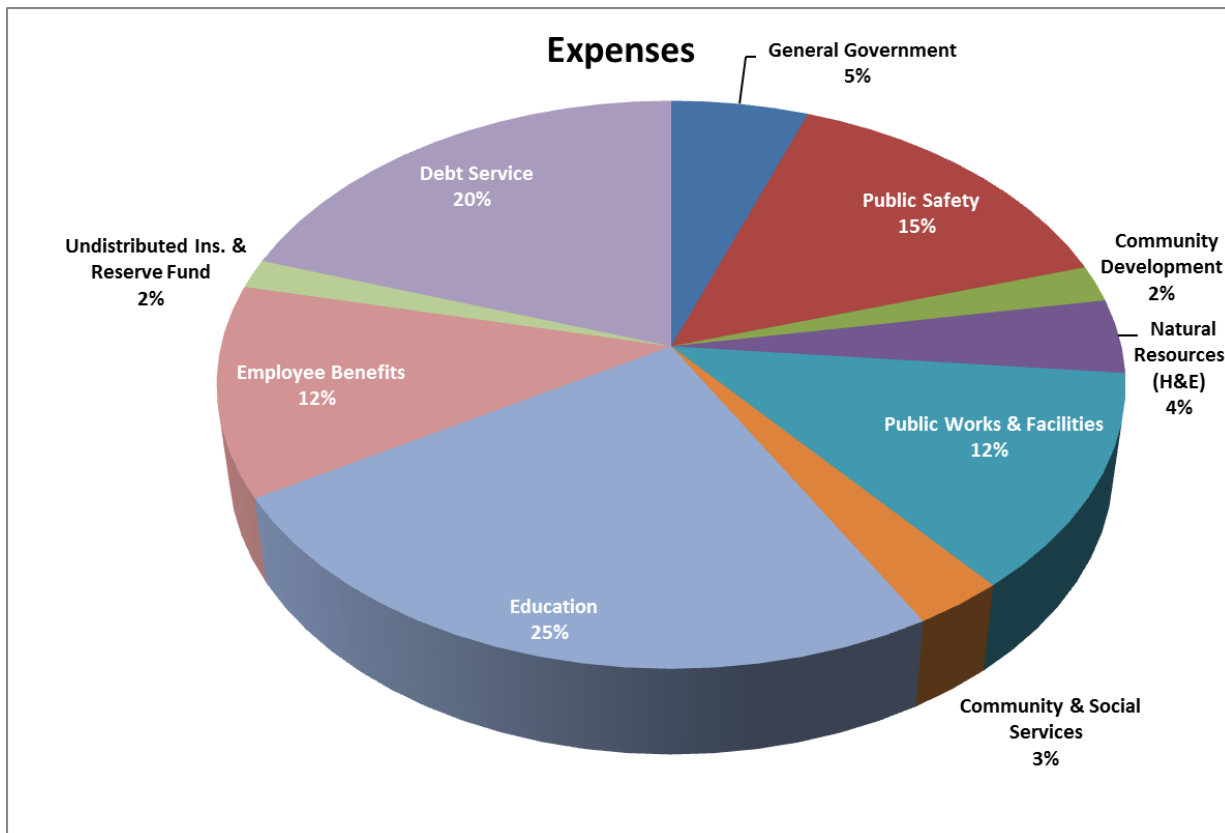
### Non-discretionary (Fixed) Costs/Undistributed Expenses and Other Budgets

While some departments generate revenues, the costs of retirement/pensions/health benefits/liability insurance is presented in Centralized Budgets (below) as undistributed expenses encompassing all Departments/Employees/Buildings - versus presentation as a direct offset or as a cost-center. However, new for our FY2016 budget deliberations with the Finance Committee, we will illustrate cost-centers per Department for discussion purposes.

Each year there are cost increases resulting from a legal/mandate requirement, previous commitments voted by Town Meeting, or cost of providing the same level of service. In the past these were referred to as “budget busters” but we move away from that term as we prepare a balanced budget that includes fixed cost increases but with mitigation offsets.

- Chatham employees contribute a range of 9% to 11% of their salaries for retirement to the Barnstable County Retirement Board as we do not contribute to Social Security. Overall retirements/pensions continue to impact Town expenses. This line item includes an increase of \$27,894 or 1.61% for FY2016. The calculation is based on the overall salary of the Town as reported on October 1<sup>st</sup> of the prior year.
- The Town is a member of the Cape Cod Municipal Health Group (CCMHG) – a regional joint purchase group/trust for health benefits/plan premiums. The figures presented in the Budget summary represent an increase of 12% in the Employee Benefits budget even with an anticipated substantial rate subsidy by CCMHG. The Town controls this expense item through increases in employee contributions for employees hired after 2013.
- Property liability insurance has increased by 18% and is based on the overall value of the Town’s buildings.
- Worker’s Compensation insurance shows an increase as this is also premium based. We continually monitor this and seek quotations to ensure the lowest rate for the Town.
- Debt Structure (financing schedule for previously approved Town projects) as submitted by the Finance Director is included as Attachment 2. The fiscal policy of using “debt drop off” to fund the Town’s Capital Facility Plan has been very effective in the past and we continue to see a decrease in debt service in FY2016. This Budget includes short-term interest payments for the Fire Station Project (approved in October 2013).

**Figure 7: Expenses**



#### Supplemental Funding Requests

Such requests include additional personnel and other expense increases when efforts have been made to demonstrate anticipated efficiencies or future cost savings. Additionally, this is the section to note if there is a new State or Federal mandate for programs or services not previously funded or any deviations to the level service directive. Based on strategic funding for priority/core services or staffing, or with any forecasted increases in revenues or known reductions in operating costs, funds may become available for potential funding. Such requests are noted on the Department worksheets.

When we receive a supplemental request we look to offset such with a reduction elsewhere in the budget. The supplemental requests are enumerated below:

FUNCTION	AMOUNT	IMPACT
General Government	\$37,605	Channel 18 Budget increase for Media Assistant; technology cost increase \$10,000
Public Safety	\$31,940 offset by (44,378)	Additional Firefighter beginning Jan 1, 2016; reduction in Contracted Services
Natural Resources	\$21,308 offset by (21,308)	Reallocation for a shared position
Public Works	\$55,000	Transfer Station tipping fee per new contract (full year); increase in recycling materials removed offset by decrease in trucking line
Human Services Library Budget	\$7,300 \$27,872	Municipal requirement for Library presented as a separate budget; Acct # 610

*Please see detailed explanations and funding impacts of the following in the Department Budget Summaries.*

- IT Personal Services; Channel 18 – Funding of a Media Assistant (reduction of \$10,000 for intermittent staff) due to the increased number of live and recorded meetings. Funded from Cable Access fees.
- Assessing Expenses –Continued Funding for Triennial Revaluation.
- Treasurer/Collector – Continued Funding for Tax Title Legal Counsel. In FY2015 we have collected \$191,803 in back taxes from such assistance.
- Natural Resources Harbormaster Division – effectuating a shared position with Coastal Resources – 50% funding allocation to each division; reduction in Personal Services line item in the Harbormaster Division transferred to the Coastal Resources Division– no financial impact.
- DPW – addition of a seasonal temporary Laborer (with a reduction of a seasonal laborer in the Parks & Recreation budget)
- DPW – Water Expenses– continuation of meter replacement program
- Council on Aging – Additional funding to Personal Services to augment a grant funded receptionist position
- Fire Department – funding of a new firefighter/EMT for the latter six months of the fiscal year; partially offset by a vacant Department position.

#### Renewable Energy

2014 saw the completion of four renewable energy initiatives helping to move the Town towards generating 100% of energy consumed at municipal facilities from renewable energy sources in the upcoming year. The solar photovoltaic [PV] array panels on WPCF Operations Building continued to generate 52,484 kilowatt hours (kWh) of clean, renewable energy over the course of the year. This is the equivalent of 1,704 days of electricity usage in the average American home. The three additional PV systems coming on line at the capped former landfill, Police Department and Town Offices Annex buildings late in calendar year 2014 started generating energy to help meet the above 100% goal.

Completion of these PV facilities brings Phase I and Phase II projects with the Cape and Vineyard Electric Collaborative (CVEC) to a close. The combination of the landfill ground mounted array and rooftop installation's projected annual generation of over 2,400,000 kilowatt hours will bring the Town's solar energy production from PV installations to approximately 74% of total energy demand at municipal facilities. Cost savings from the three new PV projects are projected at an estimated \$124,750 in year one of operation (FY2016) and over \$3.6 million cumulatively by the end of the agreement at year 20.

The final renewable energy initiative noted above for this year was an "off-taker" agreement with CVEC to receive (virtual) net metering credits from a wind generation project in Plymouth for 142,758 (kWh) of renewable energy per year. These net metering credits will bring Town's percentage of renewable energy used to meet the municipal demand up to almost 79%. This "off-taker" agreement has a projected annual value of almost \$3,000 per year and a \$60,000 cumulative value over the life of the agreement. CVEC has just announced a Phase III round of PV projects that will be investigated in 2015 to help the Town continue on its path towards generating 100% of energy consumed at municipal facilities from renewable energy sources. Additional efforts to explore demand management opportunities in the new Fire Station and existing facilities will continue to help reduce overall energy use where possible as well. We will also continue to seek energy efficient options with new vehicle purchases to help reduce our carbon footprint.

The Town budget most positively impacted by energy conservation efforts in FY2015 is the Street Light Budget. With the expansion of the LED replacement light pilot program Town-wide, we expect to see a conservative savings of \$10,000, due to bulb life and easier maintenance, from the FY2014 budget appropriation of \$46,000.

#### Water Department Operating Budget

The Water Department Operating Budget, funded by revenue generated from water receipts, continues to have a healthy revenue stream. For FY2016, there is slight increase in the overall water department budget compared to FY2015. The increase is almost entirely offset by a reduction in the debt budget.

#### Wage/Salary Overview

The net increase in salaries from FY2015 to FY2016 is \$276,876 – or a 2.8% increase. Below is a chart listing the changes in salary line items by division. Increases or decreases are due to changes in staff turnover and contractual step increases. Cost of Living increases are also included in the chart below.

<b>Salary Only</b>	<b>Voted FY2015</b>	<b>TM Rec. FY2016</b>	<b>\$ Incr./ (Decr.)</b>	<b>%</b>
I. General Government	\$ 1,366,519	\$ 1,427,920	\$ 61,401	4.5%
II. Public Safety	\$ 4,641,898	\$ 4,811,832	\$ 169,934	3.7%
III. Community Development	\$ 627,332	\$ 639,276	\$ 11,944	1.9%
IV. Health & Environment	\$ 1,048,731	\$ 1,060,108	\$ 11,377	1.1%
V. Public Works	\$ 1,965,803	\$ 1,965,419	\$ -384	0.0%
VI. Human & Public Services	\$ 222,014	\$ 244,618	\$ 22,604	10.2%
Subtotal, I-VI	\$ 9,872,297	\$ 10,149,173	\$ 276,876	2.80%

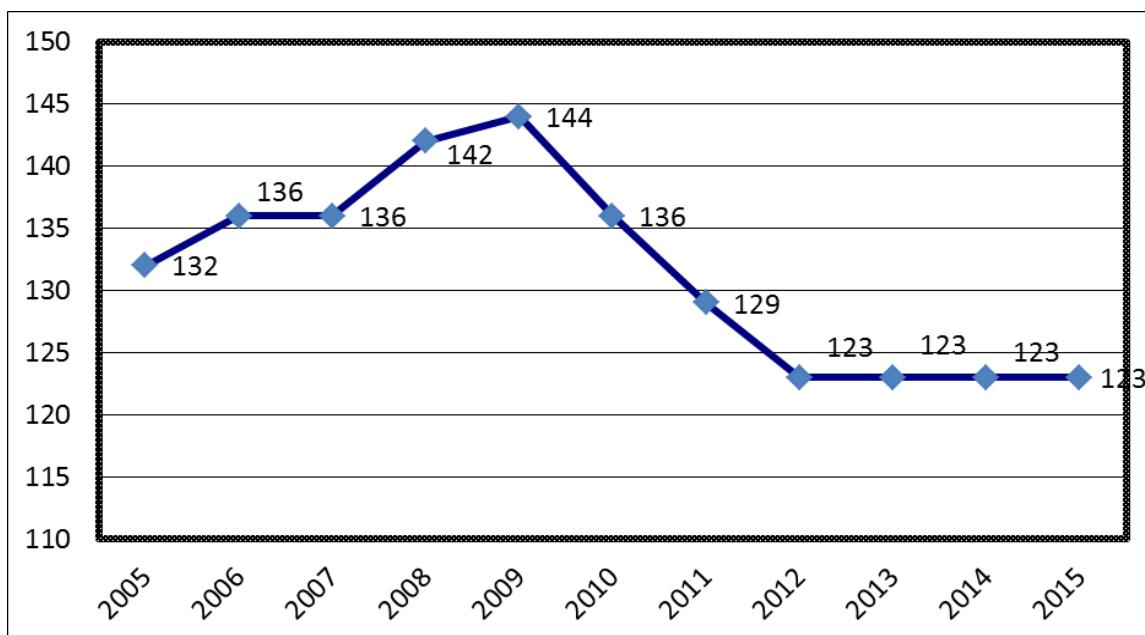
### Personnel/Staffing Levels

As has been the practice in Chatham, each year we determine the appropriate staffing levels for the services provided. The staffing level for FY2016 is stable at 123 employees. We continue to review service delivery and the most efficient manner in which to deliver those services; whether it is through a regional partnership, increase (or decrease by attrition) in staff or reassignment of current personnel.

Overall, personnel wages and benefits represent approximately 50.26% of the Town's operating budget (excluding debt service) and remain relatively stable. Although health insurance has increased annually, the Town has been able to mitigate these increases since FY2013 though negotiated plan design changes with the employees. As vacancies occur, every effort is made to re-examine positions with a view toward restructuring, reducing or eliminating the position, where possible.

As this chart illustrates staff grew during periods of economic growth; as the economy declined it was adjusted accordingly. We continue to review operations to ensure the most efficient delivery of service with existing staff.

**Figure 8: Number of Full Time Employees (FTE)**



### Cost of Living Adjustment

Previously, any cost of living wage adjustment for both union and non-union municipal employees was funded in a warrant article separate from the operating budget. However, with the majority of Town employees covered by an Employee Association/Union Collective Bargaining Agreement (CBA), a cost of living adjustment is a contractual obligation versus subject to an annual appropriation by an article, per State law. This is reflected in the respective Department budgets. For clarification, a cost of living adjustment is not the same as step increases in the Town's compensation schedules/plan or CBA. The plan is "adjusted" by a local economic indicator which is formulaic for three Unions and a straight percentage for the other. From FY2010-2013 there were no cost of living adjustments for any Town employee, with the exception of the Fire Union in FY2011. For FY2014, the cost of living adjustment

was 0.5% for all four Unions. All Unions have agreed to a tiered benefit schedule for new employees hired in part of FY2013 and from FY2014 on, which provides for increased employee contributions to health insurance premiums (from 30% to 35%), reduced longevity pay, elimination of sick leave buy back at separation, and other negotiated items - the FY2016 COLA is 3% for Fire, Police, Dispatchers/Animal Control unions. It is undetermined at this time for the Chatham Municipal Employees Association as that will be under negotiation. All four union contracts expire on June 30, 2015.

#### Debt schedule

The fiscal policy of using “debt drop off” to fund the Town’s Capital Facility Plan has been very effective, and will continue. With the approval of the new Fire Station at a Special Town Meeting in October 2013, the Town has essentially completed renovation of all major buildings. The FY2015 goal of the BOS was to recommend a Debt Holiday per se; that the Town “take a break” from projects that have not been previously approved or in queue. A multi-year debt schedule [Attachment 2] is included so that decisions impacting future years can be known at the time of Town Meeting approval.

#### Wastewater/Sewer Project – Next Phase

The Board of Health began the process of issuing sewer connection orders to properties serviced by the new collection system in Phase 1A. This process is utilizing the new on-line sewer connection application e-permitting program very successfully. This program saves applicants, engineers, and town staff significant time and effort in tracking the connection process. At the end of 2014, 252 connection orders had been issued, 91 properties were connected to the system and 54 were in various stages of application. The Board of Health had also granted 7 extensions to the mandatory one year connection period. Additional connection orders will be issued in early 2015 for Phase 1B properties.

At the May 2014 Annual Town Meeting voters approved \$17.5M in funding for the remainder of Phase 1C sewer expansion. Phase 1C is a multi-year plan, with an estimated total cost of \$27M based on 2014 costs, with \$10M approved in May 2013. The initial Phase 1C construction (1C-1) contract, funded under the 2013 appropriation, has been approved for a 0% loan from the State Revolving Fund (SRF). Completing the projects proposed for Phase 1C will accomplish the sewerage of the Oyster Pond and Little Mill Pond watersheds, leading to their restoration. These are water bodies that are more highly impacted by excessive nutrients. Additional benefits will result as improved water quality in Oyster Pond and Little Mill Pond propagates throughout the Stage Harbor System.

Construction began on Phase 1C-1 in 2014 and is expected to be completed in 2016. With the additional funding approved in May 2014 contracts 1C-2 to 5 are in design phase and once completed will be entered into with phased construction over the next 3 to 4 years. It is expected that these contracts will likewise qualify for 0% SRF funding. The next wastewater funding request (Phase 1D) is not planned until May 2016.

Chatham and Harwich continue to partner, along with State and Federal agencies, on the Muddy Creek Restoration Bridge Project. Since October 2013, following more than a decade of collaborative study and analysis undertaken by the towns, and other regional, state and federal partners, the towns have received a total of \$4.3M in federal funds for construction costs. These federal funds reduce the burden on taxpayers and provide an opportunity to complete a badly needed environmental project.



Chatham and Harwich also continue to evaluate the use of the Chatham treatment facility as a means to address the wastewater nitrogen issue for a portion of the East Harwich area, within the jointly shared watersheds to Muddy Creek. This joint venture would provide an opportunity for some of the capital costs on Chatham taxpayers related to the new treatment facility to be offset by Harwich. The towns will continue to explore this option in the upcoming fiscal year.

#### Other Post-Employment Benefits (OPEB)

Other Post-Employment Benefits (OPEB) are the benefits, other than retiree pensions, offered to retirees and their dependents. These benefits mainly consist of medical insurance. OPEB liability is the present value of benefits for retired and vested employees. An unfunded liability reflects an incurred obligation, payable in the future, for which no reserves have been set aside. While the Town funds retiree benefits as a pay-as-you-go funding strategy in the annual budget, the Town is required to comply with a Federal mandate, GASB 45, to account via an actuarial study for the Town's future unfunded liability. We are rapidly approaching the amount of Town retirees exceeding the number of active employees. Bond rating companies look favorably on municipalities that have established and funded OPEB trust funds, and we established such in 2013, with a funding appropriation of \$150,000 from Town Overlay Surplus funds.

The Town's overall unfunded liability decreased from \$43,726,097 (6/30/2010) to \$16,559,085 (6/30/2012) due to municipal health reform adopted by the Town and the formation of the Monomoy Regional School District. An updated actuarial study will be completed in June 2015.

We again propose to use the Overlay Surplus, a fund balance remaining after the payment of property tax abatements, as a funding source. This year we plan to request to transfer an amount not to exceed \$150,000 from Overlay Surplus to the OPEB Trust Fund.

#### Five-Year Capital Plan

In FY2016 we continue to direct our focus on capital improvement needs with the continued directive to pause on new projects. In evaluating Departments' requests, jurisdictional priorities affecting department needs are considered. During informal review meetings, Departments provide the Town Manager with information relative to the request, such as vehicle maintenance costs and life expectancies for equipment requests. Each request is assessed on its own merit and categorized according to that assessment, taking into consideration usual best practices with the development of a Plan, such as:

- ✓ Legal mandates - consequences of noncompliance/ cost of compliance;
- ✓ Conformity to Town plans and goals; productivity - return on investment;
- ✓ Future operating budget impact; and
- ✓ Cost effectiveness

The Financial Policies adopted by the Board of Selectmen in consultation with FinCom in December 2012 established a range for the Capital Improvement Budget to allow for "an expenditure amount equal to between 3%-7% of the Town's Operating Budget". This policy provides a range for adequate funding of the capital plan – which historically corresponded to the balance of limited available funds (free cash). For FY2016 the Capital Plan is recommended at \$1,775,000 or 6.45% of the Operating

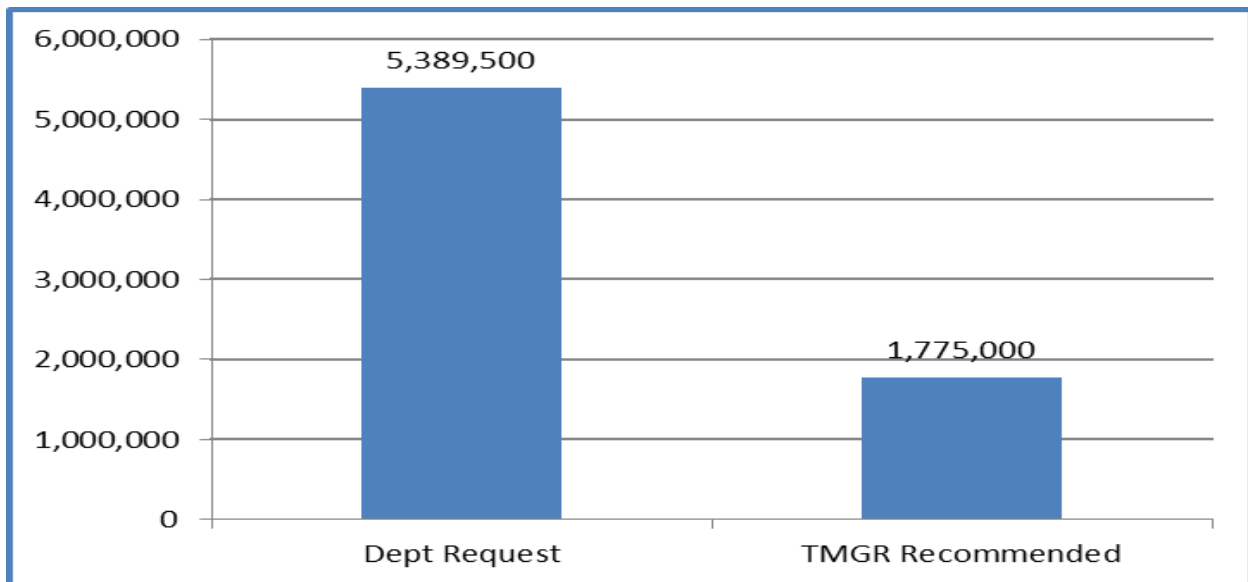
Budget, and is funded through free cash, other available funds, and the tax rate. The FY2016 Capital Budget uses less of the tax levy than in FY2015 as illustrated in the chart below.

The FY2016 Capital funding recommendations are attached in detail [Attachment 3]. Requests are detailed by Department, with summaries highlighted below including proposed funding sources:

Again, the lease payment for Quint Fire Apparatus is included in the Fire Department operating budget. The Five Year Capital Plan is located in *Budget Central*.

CAPITAL PROGRAM & BUDGET SUMMARY	FY2016	FY 2016
	Dept. Request	TMGR Recommendation
General Government	\$ 332,500	\$ 205,000
Public Safety	431,500	214,500
Community Development	12,500	12,500
Natural Resources	2,543,000	142,000
Public Works (without Water)	1,266,000	597,000
Equipment	\$ 804,000	604,000
Total Town Funded Capital Budget	5,389,500	1,775,000
<b>Funding Sources:</b>		
Free Cash		750,000
Waterways Improvement Funds		42,000
PEG Access Funds		25,000
Cemetery Sale of Lots		5,000
Shellfish Revolving		
Prior Articles		43,331
Capital Exclusion		
Raise & Appropriate (available Tax Levy)		909,669
Total Funding Sources	1,775,000	1,775,000
	(\$3,614,500)	\$0

**Figure 9: Capital Funding Recommendations Summary**



#### Vehicle Replacements

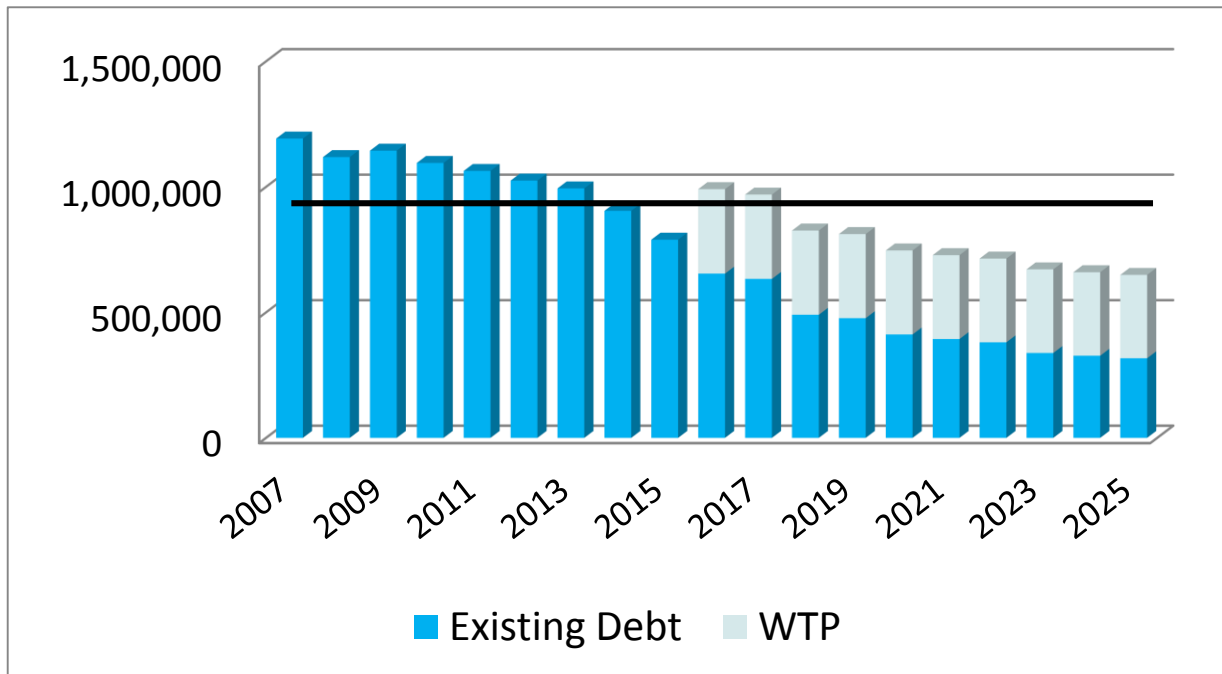
We continue to explore the lease funding mechanism for vehicles. Municipal leases are different from consumer automobile leases in that the lease term is 3-5 years with a \$1 buy out at the end. The State has dealerships on its “bid list” and there are other approved regional purchasing collaboratives. Such action was taken in FY2013 for the Quint Fire Apparatus (anticipated delivery in 2015) via a separate capital article, and has also been used to fund the police motorcycle. Funding for year two and beyond of an annual lease is included in the Department operating budget (as illustrated in the Fire Department capital outlay line item). A fleet listing is included in *Budget Central*. As previously noted, we are investigating opportunities for energy efficient or hybrid vehicles, price permitting.

#### Water Department Five-Year Capital Plan

The Water Department has a separate capital budget. This budget is funded not from free cash, but from revenue from water charges. The Town has been aggressive in this capital plan in order to systematically replace and expand its water infrastructure.

The Water projects are anticipated in future years within the Water Department Five-year Capital Plan. These projects are an enhanced water meter reading system, and the cleaning/painting of the 1.35 MG standpipe. The budget has a placeholder for \$650,000 for cleaning and painting the Water Standpipe, but we have not made a final decision whether to move forward at this time with a separate article. The borrowing associated with the article will be paid by water revenue and reserves anticipated for this purpose. The Chart below illustrates the ability to use water debt drop-off to fund the WTP without the need to raise water rates.

**Figure 10: Projected Water Debt – 2% SRF Funding for 20 years**



## NEXT STEPS

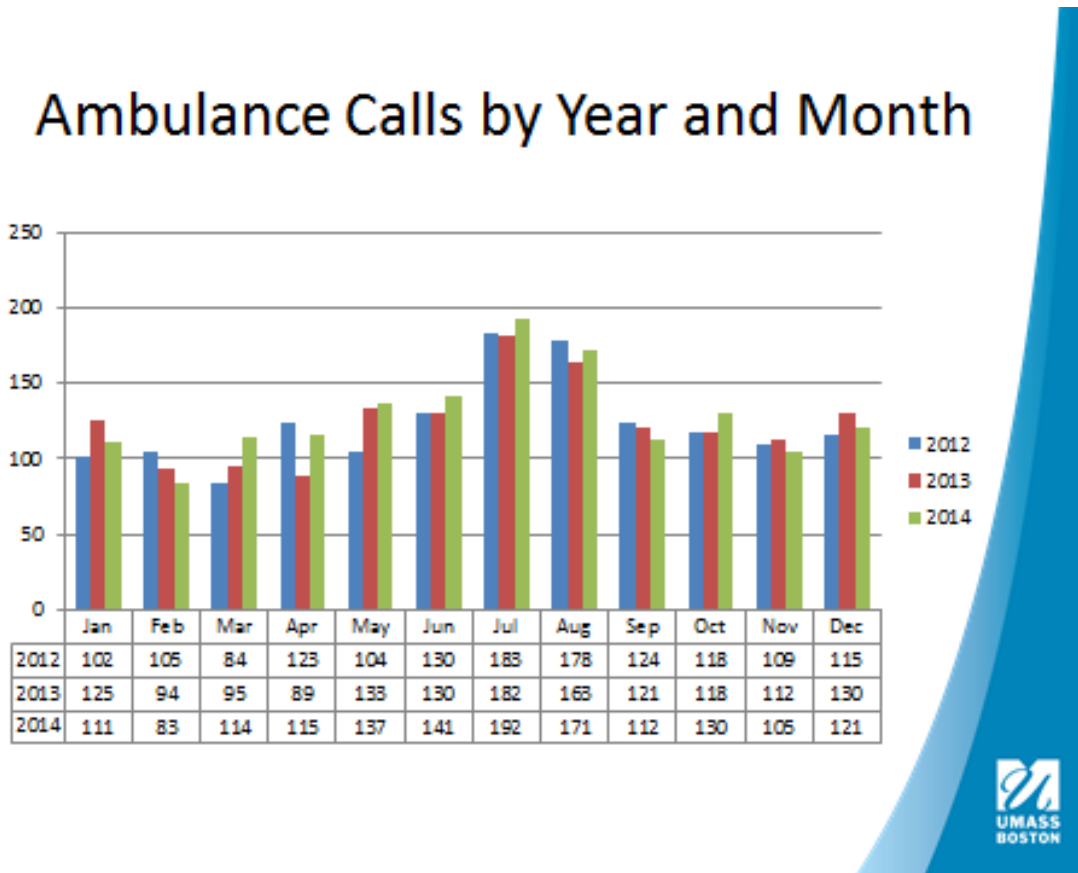
We remain committed to looking outside the box for cost saving strategies or ways to expand management capacity. Departments are also examining revenue sources such as reviewing fees and charges as compared to neighboring towns and market conditions as well as bi-lateral partnerships which we plan to continue and expand.

### Performance Management

The Town of Chatham participated in a pilot program of 18 communities conducted by the Collins Center at the University of Massachusetts funded through a Community Innovation Grant (CIG). This program provides assistance to Massachusetts municipalities looking to tune up or establish a performance management program (*CitiStat* or similar program) or to improve their usage of data in management and policy-making. The program provided an analyst to the Town who assisted in compiling data from three departments (DPW, Fire, and Police) to provide measurable information on operations. *CitiStat* is a leadership strategy that involves the Town Manager holding regular meetings with Department Heads where data are used to analyze performance, follow-up on previous appropriation and management directives, establish goals, and examine the effectiveness of strategies. For the Finance Committee last year, we presented the Fire Department budget in a preliminary *CitiStat* format which was well received.

We continue to move in this direction to provide quantified information that supports management recommendations for funding/staffing realignments. An example of such is the following slide with 2012 as the first year in the bar graph followed by 2013 and 2014 noting call volume by month:

Figure 11:



Other slides note call volumes by time of day/shift for 2012-2014. Such is available in *Budget Central*.

#### Technology

The Town's Technology department is looking forward to continuing its productivity into FY2016. The Capital Budget includes funding to upgrade our Email server and telephone system as well as placing all computers and hardware onto a 3-5 year replacement schedule. We are looking to re-design our Wide Area and Local Area Networks to enhance security and the utilization of the Town's fiber optics and evaluating numerous manual processes within Town departments to identify time and cost effective processes to better utilize technology.

#### E-Permitting

Chatham was one of three Cape & Islands communities who participated in the Community Innovation Grant that would automate the issuance of permits for services. The regional permit, license, and inspection solution will be functional 24 hours a day, seven days a week, effectively increasing the Town's hours of operation. Transactions that are more complex will require staff intervention to complete the process, and offices will open and remain available to the public for assistance.

The project, as with any canned software program that requires customization, enlisted much staff time by various departments to ensure data conversion and ease of use by customers. Unfortunately, finalization and roll-out to customers has taken much more time than anticipated. Much of the time spent in 2014 focused on the back-door (internal management). The on-line Mooring Permit program,

launched in November 2013 via a grant with the towns of Provincetown and Dennis, has been well utilized in its second year and will be further refined and expanded. In January 2014, an on-line animal licensing program was successfully rolled out by the Town Clerk's Office, in conjunction with the 2014 Town Census with credit card payments accepted. The Town also implemented a new on-line sewer connection application as part of its e-permitting program after beta testing with local engineers.

#### **FINAL NOTES**

Strategic budget planning efforts since 2012 and expense reductions for benefits have placed the Town in a much better position than many other towns in the Commonwealth. The challenge will be to maintain service level expectations within the desired funding parameters. Our excellent AAA Bond Rating has sustained. However, with an upcoming Bond issuance review in June 2015, it is important maintain our reserves, sound fiscal strategies and review policies regularly.

Furthermore, there are items and final figures needed as of this budget submittal. We are awaiting the formal transmittal of the MRSD School Committee recommendations; health insurance premiums; and will have all four collective bargaining agreements expiring on June 30, 2015 (end of FY2015). Thus, it is likely that will revisit some of the Town Manager's recommendations and update forecasts as we move through the two months of the public budget review process. With that said, I remain committed to continue with our collaborative approach to financial management in partnership with the BOS, Finance Committee, and Monomoy Regional School Committee as we continue discussions of core services our community desires and needs, transparency of government operations, and continue to seek innovative funding of programs and services.

As always, I want to acknowledge and express my sincere appreciation to Town Officials and Town Departments for their time, cooperation, and patience in assisting me in crafting my fourth issuance of the Town Manager Budget recommendations and summary, and for the great effort to achieve BOS budget directives. I also appreciate the knowledge, information, feedback, and support from the many taxpayers passionate about our beautiful community. As always, I welcome your continued comments and input on how to make the Budget process and Summary more user-friendly.

*For the purposes of the General Bylaws and Charter, submission of this message and accompanying budget satisfies the submission requirements of the Board of Selectmen to the Finance Committee.*

Thank you in advance for your thoughtful consideration, and I look forward to working with you through this important process.

Respectfully submitted,

Jill R. Goldsmith, Town Manager

*Attachments 1-3*